PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION G-3374**
March 17, 2005

R E S O L U T I O N

Resolution G-3374. Pacific Gas and Electric (PG&E) submits an Advice Letter (AL) requesting authority to revise Rule 14 of its gas tariff to apply the Operational Flow Order (OFO) Noncompliance Charge Exemption on a per OFO rather than monthly basis.

By AL 2564-G. Filed on August 9, 2004.

SUMMARY

This Resolution approves PG&E's request to apply the OFO noncompliance charge exemption when OFOs are issued, i.e., per OFO event, rather than on a monthly basis.

In order to maintain gas system reliability, whenever gas inventories in its pipeline system are forecast to be outside an acceptable range, PG&E issues an OFO informing entities using its gas system that they have to match their gas supplies and usage within a tolerance band. These entities, called balancing agents[1], are assessed OFO noncompliance charges for failure to balance their gas supplies and usage in accordance with OFO instructions. PG&E's proposal in this advice letter is to apply the exemption on a per OFO event basis rather than monthly in order to ease the administrative burden on small balancing agents while not compromising reliability. The amount exempt from collection by PG&E will remain at the existing $1,000 limit. This Resolution finds PG&E's proposal reasonable. AL 2564-G shall go into effect 10 days from the effective date of this Resolution. The protest of Wild Goose is denied.

[1] Party financially responsible for managing gas imbalances on the PG&E pipeline system. Balancing agents include core transport agents, PG&E Core Procurement Department and noncore customers under various agreements.

BACKGROUND

Balancing agents are currently exempt from paying OFO noncompliance charges if the amount incurred during the month is less than or equal to $1,000.

Under Rule 14 of PG&E's gas tariff, the utility issues OFOs to inform customers that gas inventories in its pipeline system are forecast to be outside an acceptable range. When an OFO is declared, balancing agents are required to match their gas supplies and usage within a tolerance band (the amount of gas imbalance not assessed a penalty). Gas volumes falling outside the tolerance band are subject to OFO noncompliance charges. Currently, a balancing agent is exempt from paying the OFO noncompliance charge if the total charges for the month are less than or equal to $1,000.[2]

PG&E proposes to apply the OFO noncompliance charge exemption when an OFO is issued rather than on a monthly basis.

In AL 2564-G, PG&E seeks to modify Rule 14 by changing how often the $1,000 OFO noncompliance charge exemption applies. Instead of monthly, the exemption would apply each time an OFO is issued. For example, if three OFOs are issued in a particular month, a balancing agent could be exempt from paying up to a maximum of $3,000 of OFO noncompliance charges for the month ($1,000 x 3 = $3,000). Under the existing rule, the balancing agent would be required to pay the entire amount since the charges incurred during the month exceeded $1,000. The amount of gas represented by these charges depends upon the rate charged by the utility consistent with the severity of the OFO situation.[3] The AL explains that PG&E's proposal received positive support in the OFO Forum, a process established in Decision (D.) 00-02-050 to address OFO issues collaboratively between the utility and its customers.

[2] OFO noncompliance charges collected by PG&E are recorded to the utility's Balancing Charge Account and are credited back into gas transportation rates.

[3] Rule 14 contains OFO noncompliance charges corresponding to the various stages of an OFO alert.

NOTICE

Notice of AL 2564-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

On August 26, 2004, Wild Goose Storage (Wild Goose) filed comments on AL 2564-G requesting that PG&E provide additional analysis of the proposed changes on pipeline system operations.

On September 2, 2004, PG&E filed a response to Wild Goose stating that it provided the OFO Forum an analysis using data from a prior 12 month period ending May 2004 indicating that the impact of the proposal on pipeline operations would be insignificant.

On September 2, 2004, the School Project for Utility Rate Reduction (SPURR) and ABAG Publicly Owned Energy Resources (ABAG) responded to Wild Goose's comments urging that AL 2564-G be adopted and stating that the exemption proposal is important to small balancing agents.

DISCUSSION

Analysis of past OFO data indicates that changing the OFO noncompliance charge exemption to a per OFO basis will not materially impact PG&E's pipeline operations.

PG&E stated in its reply to Wild Goose that OFO noncompliance charges would have been reduced by $22,235 had the exemption proposal been in effect during a prior 12 month period. In response to an Energy Division data request, PG&E noted that the amount of gas represented by these charges was approximately 22,235 decatherms (Dth) or about 0.0024% of the system total over the entire period. On the day when the largest impact occurred, the amount of the gas imbalance would have been equal to approximately 0.17% of the total daily gas delivered. The utility indicated that the amount of these gas imbalances would not cause operational problems for its pipeline system nor approach a point that would raise concern – generally when gas imbalances reach 1% of total system deliveries.

We find this showing adequately responds to Wild Goose's concern for additional analysis and that the small incremental increase in gas imbalances provides a strong indication that any operational problems arising from PG&E's proposal is unlikely.[4] Furthermore, the low additional gas imbalances suggest that the exemption change should not affect the execution of OFOs by the utility.

PG&E's proposal should reduce an administrative burden on balancing agents.

PG&E explained to the Energy Division that its proposal will reduce an administrative burden on balancing agents, particularly small balancing agents (typically managing less than 1,000 Dth/day) which represent a small proportion of total systemwide gas demand.[5] To manage gas supplies within the tolerance band and avoid being subject to OFO noncompliance charges, small balancing agents generally make gas nominating and procurement adjustments involving minor quantities of gas (possibly as little as 100 Dth). Because of the size of these adjustments, any resulting impact on relieving an OFO situation was said to be negligible and that buying or selling such small quantities of gas may prove difficult.[6] According to the utility, allowing the OFO noncompliance charge exemption to apply on a per OFO basis will reduce the need for these transactions without harm to its pipeline system. The utility notes that larger balancing agents can take advantage of its proposal, although they receive a relatively smaller benefit in comparison to the size of the gas supplies they manage.

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[4] In its protest, Wild Goose implies that under PG&E's proposal, gas imbalances previously exempt from OFO noncompliance charges would remain exempt from future OFO noncompliance charges ("… this same Balancing Agent could leave 2,997 Dths of imbalance on the system, not subject to OFO noncompliance charges." See Wild Goose protest at p. 1.). However, under PG&E's proposal, the full amount of the OFO noncompliance charges are due and payable to the utility if the charges exceed $1,000 per OFO event (i.e., the exemption amount is not cumulative).

[5] In response to an Energy Division data request, PG&E provided data showing that small balancing agents with loads of 5,000 Dth/day and less represent approximately 1.5% of total daily winter demand and 2% of total daily summer demand.

[6] Balancing agents may have difficulty executing these transactions since gas volumes needed to be bought or sold for balancing are insufficient to interest market participants or involve complications concerning procurement contracts.

In its reply to Wild Goose, and in information provided to the Energy Division, SPURR / ABAG offers additional support for PG&E's proposal. Because usage data needed to balance the core load it manages is provided by PG&E on short notice, SPURR / ABAG says it must balance gas supplies with little time to react.[7] As a consequence, the balancing agent explained to the Energy Division that it may need to buy or sell gas when market conditions are unfavorable.[8] An alternative to this situation is for the balancing agent to utilize gas storage, however this involves additional expenses. SPURR / ABAG argues that the gas volumes it manages (several 1,000 MMBtu / day) does not aggravate OFO conditions and that applying the OFO noncompliance charge exemption per OFO event will mitigate problems associated with the receipt of information needed for balancing gas supplies.

We find the contentions of PG&E and SPURR / ABAG reasonable. Since the amount of gas managed by small balancing agents represents such a low proportion of gas usage systemwide, it follows that any impact these balancing agents would have on gas imbalances under the exemption proposal would likely be very small. Furthermore, as PG&E's analysis indicated, extending the exemption to all balancing agents should not cause operational problems. As a benefit, the proposed change should reduce the administrative burden on balancing agents to manage gas supplies during an OFO and allow them to avoid incurring related expenses. Moreover, as explained below, suitable protections exist to restrict gas imbalances from becoming problematic.

Safeguards will remain in place which should limit the size of gas imbalances under PG&E's proposal.

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[7] In D. 03-12-061, the Commission adopted PG&E's proposal to provide core procurement groups with the Determined Usage forecast used to calculate compliance with flow orders on the morning of the gas flow day. Prior to this, the Determined Usage forecast was provided on the day before the gas flow day (see D. 03-12-061, pp. 131 and 183). SPURR / ABAG noted that this situation is particularly troublesome for managing gas supplies during the fall and spring when temperature fluctuations can make it difficult to accurately predict demand.

[8] As an example, SPURR / ABAG explained that under a high inventory OFO other balancing agents may be seeking to sell gas resulting in depressed market prices, leading to losses.

PG&E's proposal will leave in effect the following conditions published in Gas Rule 14 intended to limit gas imbalances on the utility's pipeline system.

First, the amount of OFO noncompliance charges that may be exempt will remain unchanged at $1,000. Therefore, if the proposal is approved and a balancing agent exceeds the $1,000 limit when an OFO is called, they are responsible to pay the entire amount of the charges.

Second, the OFO "stage level" determines the tolerance band, which in turn determines the amount of gas sheltered from OFO noncompliance charges. (The OFO stage level also determines the noncompliance penalty.) The tolerance band is set to correspond to the severity, or "stage", of an OFO situation and may be reduced to 0% under extreme conditions. As the tolerance band is lowered, the amount of gas that may be exempt from the OFO noncompliance charge is reduced.

Finally, the range of OFO noncompliance charges (from $0.25 to $25.00 per Dth plus a gas price index factor) associated with the five OFO stages will progressively limit the amount of gas falling under the $1,000 exemption.[9] As higher OFO stages are called, the higher the corresponding OFO noncompliance charge, reducing the amount of gas exempt from penalty.

We find that these protections provide PG&E with sufficient means to prevent gas imbalances from building to a significant level if the proposal is adopted. As a demonstration, using the most restrictive tariff provisions, PG&E could set the tolerance band at 0% and call a Stage 5 OFO alert. Under these limitations, less than 40 Dth of gas per balancing agent would be exempt from OFO noncompliance charges (the OFO noncompliance charge under a Stage 5 OFO is $25.00 per Dth plus the PG&E citygate price of gas). Based on the approximate number of balancing agents (150) on PG&E's system,[10] the maximum amount of gas imbalances that could remain on the pipeline network without penalty under these conditions is less than 6,000 Dth per OFO, which should not create operational problems.

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[9] PG&E determines which OFO stage to call according to the gas inventory levels in its pipeline system.

[10] According to information provided to the Energy Division, the number of balancing agents on PG&E's system can fluctuate.

In sum, we find PG&E's proposal reasonable and, therefore, approve AL 2564-G.

As the foregoing discussion shows, PG&E's proposal should yield benefits to balancing agents with little probability of compromising the reliability of PG&E's pipeline system. Furthermore, existing safeguards will remain in place aimed at preventing gas imbalances from causing operational problems if PG&E's proposal is adopted. Since there is no need for further analysis, the protest of Wild Goose is denied. Therefore, we find PG&E's request to apply the OFO noncompliance charge exemption on a per OFO basis reasonable and approve AL 2564-G. The AL will go into effect 10 days after the effective date of this Resolution. In conclusion, we encourage the parties to take advantage of the opportunity to resolve OFO related issues in the OFO Forum.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today. No comments were received.

FINDINGS

1. PG&E filed AL 2564-G on August 9, 2004 requesting authority to change Rule 14 of its gas tariff to apply the OFO noncompliance charge exemption per OFO, rather than on a monthly basis.
2. Wild Goose filed a protest to AL 2564-G on August 26, 2004.
3. PG&E filed a response to Wild Goose's protest on September 2, 2004.
4. SPURR/ABAG filed a response to Wild Goose's protest on September 2, 2004.

5. Allowing the OFO noncompliance exemption to apply on a per OFO basis should not create increases in gas imbalances to significantly impact PG&E pipeline operations.
6. Allowing the OFO noncompliance charge exemption to apply per OFO should reduce administrative burdens on balancing agents.
7. Provisions published in Rule 14 of PG&E's gas tariff provide the utility with the opportunity to suppress gas imbalance increases when operating conditions warrant.

THEREFORE IT IS ORDERED THAT:

1. PG&E AL 2564-G is approved.
2. PG&E AL 2564-G shall go into effect 10 days from the effective date of this Resolution.
3. The protest of Wild Goose is denied.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on March 17, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
Commissioners